



County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

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To: Supervisor Mark Ridley-Thomas, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka, CEO
Philip Browning, Director
Wendy Watanabe, Auditor-Controller
Mark Saladino, Treasurer and Tax Collector

INTERIM REPORT
STRENGTHENING THE COUNTY'S OVERSIGHT OF FOSTER FAMILY AGENCIES
AND GROUP HOMES FOR DEPENDENT CHILDREN SUPERVISED BY THE
DEPARTMENT OF CHILDREN AND FAMILY SERVICES

Background

On April 30, 2013, this Board approved a motion directing the Department of Children and Family Services (DCFS), the Auditor-Controller (A-C), the Chief Executive Office (CEO) and the Treasurer and Tax Collector (TTC), to submit a written report within 30 days that includes a plan that, among other things, outlines how DCFS will perform annual programmatic audits for all foster family agencies and group homes. Since that time, the Departments have worked together to answer the questions raised in the motion, to identify areas in the contract monitoring process that could be improved, and to discuss ways to increase the effectiveness of DCFS' and the A-C's programmatic and fiscal auditing processes. This interim status report is collectively submitted in response to the motion.

Responses

- A. How will DCFS perform annual programmatic audits for all of the foster family agencies and group homes which provide homes to dependent children? If annual audits have not been performed over the last five years, then state why for each agency and group home.**

DCFS currently performs annual programmatic audits of DCFS contracted Group Homes and all Foster Family Agencies as detailed below.

Programmatic Audits of Group Homes

DCFS and the County's Probation Department (Probation) assumed responsibility from the A-C for conducting programmatic audits of Group Homes (GHs) in April 2009. The table below reflects the number of GHs for which DCFS has programmatic auditing responsibility, the number of audits conducted, and the number of programmatic audit reports issued.

DCFS Programmatic Audits of Group Homes

	CY 2010*	FY 2011-12	FY 2012-13
Audit Required	59	59	56
Audits Conducted	57	59	29**
# of Reports Issued for Stated Audit Period	57	59	19**

*In 2010 audits were performed on a calendar year basis.

**Through May 30, 2013

In CY 2010, two GHs were not audited by DCFS. In the first instance, no audit was conducted because no children were placed with the GH that year. However, DCFS audited this GH in FYs 2011-12 and 2012-13. In the second instance, no audit was conducted due to an oversight caused by a change in DCFS staff reassignments. However, DCFS audited this GH in March 2011, FY 2011-12 and FY 2012-13. For FY 2012-13 DCFS is on track to complete all programmatic audits for all DCFS monitored GHs.

Programmatic Audits of Foster Family Agencies

DCFS assumed responsibility from the A-C for conducting programmatic audits of Foster Family Agencies (FFAs) in March 2011. The table below reflects the number of programmatic audits conducted by DCFS from July 2011 through May 2013.

DCFS Programmatic Audits of Foster Family Agencies

	FY 2011-12	FY 2012-13
Audit Required	51	49
Audit Conducted	50	17*
# of Reports Issued for Stated Audit Period	49	13*

*Through May 30, 2013

Of the 51 FFAs that DCFS was required to audit in FY 2011-12, there was one FFA that DCFS did not audit. No audit was conducted after the FFA notified DCFS that it voluntarily closed its regular foster care program. This FFA remains under contract with DCFS, but the status of its foster care program remains unchanged. There is no plan to audit this FFA in FY 2012-13 unless there is a change in the status of its foster care program. Of the 50 audits conducted in FY 2011-12, one report remains in draft and will be finalized soon. For FY 2012-13, DCFS is on track to complete programmatic audits of all FFAs.

DCFS seeks to strengthen its current processes for programmatic audits of FFAs and GHs. In order to develop a sound recommendation, additional time is needed to: gather additional data, fully develop proposals (some of which are still conceptual), and thoroughly vet all proposals. The *Next Steps* section identifies what steps have been taken towards this end. The *Next Steps* section also describes concepts and proposals DCFS continues to explore.

B. State the amount of money that DCFS budgets for fiscal audits performed by the Auditor Controller; the number of fiscal audits that can be conducted annually based on the budgeted amount; whether the number of fiscal audits performed annually should be increased and why; and if so, how should the amount DCFS budgets for fiscal audits be increased.

For FY 2012-13 DCFS budgeted \$700,000 to acquire fiscal auditing services from the A-C. Based on this amount, the A-C can perform approximately 13 FFA and GH audits a year with 3.5 budgeted, full-time positions. At this rate, it would take approximately 10 years to conduct fiscal audits of all FFAs and DCFS monitored GHs.

The number of fiscal audits performed annually should be increased. To be effective, fiscal audits should be conducted regularly to evaluate the financial condition of the agency and to determine whether program funds were spent on allowable costs. Increasing the frequency of fiscal audits improves the likelihood of contract compliance and the recovery of misspent program funds.

The amount that DCFS budgets for fiscal audits could be increased through a combination of increased funding from DCFS and County General Fund. Based on the number of budgeted positions that DCFS funds, and the average amount of time it takes to complete a fiscal audit, the table below reflects the cost for the A-C to audit GHs and FFA at the stated frequency.

Frequency of Audits	# of Audits/Year	Cost/Year
All agencies/homes every year	108	\$8.3M
½ of agencies/homes every year	54	\$5.2M
¼ of agencies/homes every year	27	\$2.1M

This information is provided for informational purposes only. In its final response, DCFS will provide its final recommendation as to enhancing programmatic and fiscal audits/reviews.

C. State why the DCFS and the Auditor-Controller have not collaborated to produce a comprehensive audit report during the years in which the fiscal and programmatic audits overlap.

DCFS and A-C have collaborated in the area of contract monitoring. After DCFS and Probation assumed responsibility for contract monitoring compliance for GHs and FFAs, the A-C assisted DCFS and Probation in creating monitoring protocols, and response report guidelines using A-C's practice as a model. Since 2010, the A-C issued three status reports on DCFS' and Probation's monitoring processes and two status reports on DCFS' FFA monitoring processes. The A-C will issue its final FFA status report in September 2013.

The Departments have not worked together to produce a "comprehensive audit report" due to the complexity of issuing such a report. However, DCFS issues a report that contains both its programmatic findings and the questioned costs noted in the A-C's most recent fiscal reports.

Challenges With Issuing Comprehensive Audit Report

The scope of fiscal compliance audits performed by the Auditor-Controller of a GH/FFA generally requires approximately 400 to 500 staff hours to complete. In addition, if an FFA or GH disputes a fiscal audit finding(s), they are afforded a two-step appeal process that includes a State hearing. The appeals process can take up to 6 months to complete. The final fiscal audit report generally cannot be issued, until the appeal process is exhausted.

In contrast, programmatic audits by DCFS require between 200 – 300 staff hours for the review. The programmatic audit focuses on the quality of program delivery for children during the fiscal year in which the audit/review takes place. When deficiencies are uncovered a Corrective Action Plan is prepared so findings can be resolved as soon as possible. Corrective Action Plans should be submitted within 30 days, or sooner if critical child safety issues are identified.

A comprehensive audit report would delay the reporting of programmatic findings due to the difference in hours required to complete the scope of each type of audit. Furthermore, a comprehensive audit report could be delayed up to 6 months if a contractor exercises their appeal rights.

Consolidated Report

The A-C conducts fiscal reviews of 10 to 12 agencies per year, while DCFS completes programmatic audits of all contracted FFA and GH programs each year. When preparing for a programmatic audit, DCFS reviews the most recent fiscal audit report to inform its own auditing/monitoring staff of particular areas of concern or interests. DCFS includes in its programmatic audit report a section to report the amount of questioned costs noted in the A-C's most recent audit report, and the current status of the contractor's repayment of the questioned costs.

D. Clarify the status of the existing system and efforts used to track and collect overpayments to contracting agencies. Present the Board of Supervisors with a collection policy recommendation to have a more timely repayment schedule for overpayments and disallowed costs than current practice.

2009 Board Motion Regarding Collection

On September 22, 2009, the Board instructed the Chief Executive Office to review the issue of disallowed costs associated with audits of GHs and FFAs and to create a workgroup to assist in this matter. The workgroup consisted of representatives from the CEO, A-C, County Counsel, TTC and DCFS. The workgroup conducted: 1) a detailed review of the GH/Foster family Agency fiscal audit report process; 2) an analysis of the procedures used in the collection of disallowed costs; 3) a review of the roles and responsibilities of the TTC and DCFS in the collection process; and 4) an analysis of the impact of Senate Bill 84 Overpayment Recovery for Foster Care Providers. The group, among other things, clarified the roles and responsibilities of TTC and DCFS in the collection process.

The workgroup's final report was issued on April 29, 2010 and included recommended changes aimed at reducing the time to issue the A-C's final report and correcting deficiencies in the existing process. As a result of the current collaboration between these departments significant improvement has been made. From FYs 2009-10 to 2011-12, referrals of delinquent accounts to TTC totaled \$2.5 million - \$1.1 million of which were uncollectible due primarily to the age of the debt and/or the dissolution of the agencies owing the debt. Of the remaining \$1.4 million owing, \$440,000 (31%) has been collected to date.

TTC-DCFS Collection Process

Currently, DCFS sends a demand notice to a GH or FFA requesting that the home or agency contact TTC to establish a repayment plan. TTC establishes a payment plan, monitors the account to ensure timely repayment, and submits monthly collection reports and collections back to DCFS. Should the account become delinquent or the GH or FFA fail to enter into a repayment plan, TTC skip traces to locate the debtor and any assets. If no activity occurs on the account, after attempting to make contact and sending billings and notices, the account is forwarded to TTC's outside collection agency. If TTC deems accounts uncollectible, TTC returns the account to DCFS.

When DCFS becomes aware that a GH or FFA owes money, DCFS notifies the GH or FFA that their contract will not be renewed unless payment is made. As a matter of practice, DCFS will request a lump-sum payment. If payment in full is not feasible, DCFS will accept a payment plan spanning three years. DCFS uses the possibility of non-renewal to secure amounts owed by GHs and FFAs.

Recommendations for Improvement

The California Department of Social Services, Manual of Policies and Procedures include collection techniques that are not included in the California Code of Civil Procedure sections that govern collection activities undertaken by TTC. For example, the Welfare and Institutions Code (WIC), which governs GHs, authorize recording a lien for overpayments against real

property, prior to obtaining a legal judgment (WIC §§ 11466.33 et seq.). This tool could enhance TTC's ability to collect. TTC will work with County Counsel explore the ability to alter its existing collection techniques to incorporate these guidelines wherever possible.

In addition, DCFS has discussed with the TTC the feasibility of modifying its repayment plan agreement to allow for an increased repayment amount from a GH or FFA should it later be discovered that the home or agency has the financial ability to make higher payments under a payment plan agreement.

E. What is the accurate number of FFAs, group homes, foster homes, and the number of children in these homes; and the methodology used in identifying those numbers?

DCFS contracts with 51 FFAs. DCFS and Probation contract with 80 GHs. The number of foster homes, GHs and the number of DCFS children placed in those homes are detailed below.

Foster Family Agencies

Number of FFAs under contract	51 (as of 5/1/13)*
Number of FFAs with "Do Not Use" status	1* (as of 5/1/13)
Number of agencies suspending intake	1* (as of 5/1/13)
Number of FFAs reported having children placed	49 (as of 5/21/13)*
Number of children placed through FFAs	4,789 (as of 5/21/13)**
Number of foster homes certified by FFAs	2,980 (as of 4/30/13)**

*Information obtained from DCFS records

**Information obtained by DCFS from FFAs

Group Homes

Number of GHs under contract (GHs used by Probation and DCFS)	80 (as of 5/1/13)*
Number of GHs monitored by Probation	22 (as of 5/1/13)*
Number of GHs monitored by DCFS	58 (as of 5/1/13)*
Number of GHs with "Do Not Use" status	2 (as of 5/1/13)*
Number of GHs reported having DCFS placed children	56 (as of 5/21/13)**
Number of DCFS placed children in GHs	887 (as of 5/21/13)**

*Information obtained from DCFS records

**Information obtained from GHs

Next Steps

Proceed with DCFS Contract Monitoring Unit	<p>As part of the Department's recent re-organization, the Department will centralize all contract monitoring functions under a newly established Contract Monitoring Unit. Centralizing this function will enable the Department to better identify and target training needs, encourage intra-departmental standardization of fact finding, and increase productivity. Actions include:</p> <ul style="list-style-type: none"> • Identified 15 existing staff resources that can be redirected to initially support the unit; • Received Board approval for an additional 7 items to establish an additional Out of Home Care Investigations Unit; and • Identified as an unfunded priority, an additional need for 17 items to augment the Program/Contract monitoring staff to conduct bi-
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	monthly contract reviews and provide technical assistance for all 440+ contracts with the Department.
<i>Based on Needs Assessment, Secure Enhanced Fiscal/Program Contract Monitoring Training for DCFS Staff</i>	DCFS will follow-up on a previously conducted training needs assessment for DCFS Contract Monitoring staff. DCFS recognizes the need to train and enhance the skills of our existing staff as well as the staff that will become part of the new Contract Monitoring Unit. DCFS will look to A-C and others to assist in this training effort.
<i>Develop standard contract and program monitoring process between DCFS and Probation</i>	DCFS, Probation and Auditor-Controller to developed a standarized process for conducting contract compliance audit and program monitoring for all the Foster Family and Group Homes.
<i>Develop Foster Family Agency and Group Home Training</i>	DCFS, in collaboration with A-C, Probation, Treasurer and Tax-Collector, the Association of Community Human Service Agencies, and other stakeholders will develop and implement a training program for contractors. This training program will emphasize fiscal accountability, strengthening internal controls, and identify recent trends in fiscal and programmatic audit findings, provide practical information on prohibited transactions and disallowed costs; and highlight trends in audit findings of other similarly situated FFAs of GHs. On the program side, training will include best practices for child welfare services and safety.
<i>Seek CEO Assistance to Convene CFWB Workgroup To Develop Standards</i>	<p>Ask the CEO to convene a workgroup, comprised of the Department of Mental Health, Probation, DPSS, and DCFS to develop and recommend objective standards to guide a Department's decision regarding:</p> <ul style="list-style-type: none"> • when to recommend that a contract be terminated for cause or convenience; • when to place a contractor on a "Do Not Refer" status; • when to place a contractor on a "Do Not Use" status; • whether a contractor's poor performance with one County department should impact the same contractor's contracting relationship with a different County department; and • how County Departments should respond to audit reports disclosing fiscal improprieties absent evidence that the improprieties impact other contract deliverables, i.e. child safety.
<i>Research and Vet Automated Monitoring Tools</i>	DCFS has requested Casey Family Foundation to survey other jurisdictions to determine whether they use technology to assist in the auditing process. Casey has provided preliminary information. DCFS is reviewing the information and will follow-up with Casey.
<i>Continue to Work With A-C on Risk Assessment Formula</i>	The A-C is assisting DCFS to develop a hybrid risk assessment tool that will combine inherent child safety factors with fiscal viability factors to prioritize which agencies and GHs pose a higher risk and require additional audits or more frequent follow-up.

	the A-C. This tool will gather basic fiscal information to identify potential weaknesses that should be further reviewed and investigated by the A-C.
<i>Consult with Counsel About Remedies</i>	<p>DCFS is considering other proposals which will require input from County Counsel. The proposals relate to corrective measures which can be taken by those FFAs and GHs with fiscal disallowances, or with repeated disallowances which do not impact child safety. The proposals include:</p> <ul style="list-style-type: none"> • Requiring agencies or GHs to pay the cost of an independent entity to monitor their internal control procedures or finances. • Compel attendance in educational classes by Board members, administrative staff, bookkeeping staff, and payroll staff, as a condition of contract renewal or in exchange for refraining from terminating the contract for convenience. • Require the FFA or GH to hire professional consultants familiar with County fiscal and program audits for assistance.
<i>Performance Based Monitoring</i>	DCFS is exploring ways to implement performance based contract monitoring, where staff monitors outcomes in addition to contract compliance or program compliance.

Conclusion

The Department requests an additional 60 days to continue to explore certain proposals and vet others. This time will enable DCFS to conduct the necessary research and provide this Board with a solid plan for strengthening DCFS' contract monitoring processes. The Department recommends the CEO's office convene a workgroup to make recommendations relative to standards as outlined in the *Next Steps* section of this response.

c: County Counsel
Jerry Powers

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